INTEGRITY ASSET MANAGEMENT

Victory Integrity Small-Cap Value Fund | As of September 30, 2025

Quarterly Commentary

If there's a bustle in your hedgerow,
Don't be alarmed now
It's just a spring clean for the May Queen
– Led Zeppelin

Our Mid Cap Value and Small/Mid Cap Value strategies beat their respective benchmarks for the third quarter of 2025. However, I don't recall a quarter in the years we have been managing money where we underperformed (Small Cap Value strategy) by so much yet still felt it was a solid quarter.

Index performance was focused within the smallest market-cap segments, the lowest return-on-equity (ROE) companies, and the non-earning companies. Non-earners, like pre-revenue biotech and nuclear companies, surged during the quarter as if we are heading back to a zero-interest-rate environment. Specifically, in the Russell 2000® Value benchmark, the combination of one non-revenue nuclear company, Oklo (OKLO), biotech, and bitcoin miners added almost 170 basis points of performance to the index. If you include precious metals miners and EchoStar (SATS), you get another 110 bps. This all adds up to about 280 basis points of contribution from what we would consider non-value stocks.

According to Jefferies research (Performance Scorecard 10/1/2025), the last six months witnessed the fourth-worst relative performance for Small Cap Value managers. We see part of this as a size issue. Microcap stocks performed the best over this period, and reduced liquidity in those stocks minimizes their exposure among active managers.

However, the real issue we see is the declining quality of the Russell benchmarks. We have written before about our concerns with the inclusion of companies that are objectively not "value" in the value benchmarks. We don't understand how pre-revenue companies, for example, can be considered value. Ditto for bitcoin miners as well as high price-to-earnings (P/E), rapidly growing companies. We don't have a solution to this issue, and we hope that Russell addresses it one day.

That said, there are still reasons to be optimistic about value stocks and active management going forward. We cite these points from Jefferies:

- **Earnings growth is set to accelerate.** Street estimates and Jefferies' own view project faster earnings growth for small-caps (including value) than for large-caps in Q4 and calendar year 2026, underpinning upside in the asset class.
- **Favorable macro backdrop.** Declining borrowing costs, tighter high-yield spreads, and anticipated Fed easing favor smaller companies, which are more rate-sensitive.
- **Valuation appeal.** Small-cap stocks, including value, trade at discounts to large-caps on multiple metrics—e.g., Russell 2000® Value at 17.1x forward earnings versus 24.7x for Growth.
- **Mean reversion in active manager outperformance.** Historically, after periods when active small value managers collectively lag (as in Q3), subsequent relative results improved dramatically, with the average manager beating the index by ~4% over the next six months and ~8% longer term.
- **Potential for ETF inflows to increase allocations.** If ETF and fund flows begin to favor small-cap value after recent underperformance, this could drive a new cycle of outperformance, particularly benefitting strategies already positioned in key cyclicals such as financials and industrials.

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The market expects at least two more rate cuts this year. If they materialize, the performance trends described above could continue. We don't think rates are going to zero or near zero. Ultimately, we believe fundamentals will win out. Integrity will continue to invest based on fundamentals and valuation, looking for companies that meet our Right Company, Right Price, Right Time framework.

Communication services was the top performing sector in the benchmark. Consumer staples was the worst performing sector relative to the benchmark. Small cap value outperformed small cap growth.

The Integrity Small Cap Value Fund (A shares without sales charge) underperformed its benchmark, the Russell 2000® Value Index for the quarter. Stock selection in health care, materials, and communication services resulted in underperformance. Security selection in consumer discretionary aided performance. Sector weights were negative, as our underweights to communication services and health care hurt performance. Lower volatility was a style factor headwind, while higher beta helped.

Within health care, biotechnology was the largest detractor. Biotechnology companies were up 33%, and not owning them cost us 78 basis points. Perrigo Co. plc (PRGO) also hurt performance as quarterly results missed expectations driven in part by issues at the infant formula division. Supernus Pharmaceutical, Inc. (SUPN) was a bright spot. The company reported strong second quarter results driven by their Qelbree and Gocovri franchises. Additionally, they announced recent approval of a Parkinson's Disease pump and the closing of their Sage Therapeutics (SAGE) acquisition.

Within materials, we missed owning some of the better-performing metals & mining companies (13.3% vs. 47%), primarily precious metals, as our average holding underperformed.

In communication services, EchoStar Corp. Class A (SATS) was up 176% and not owning it cost us 51 basis points.

Sally Beauty Holdings, Inc. (SBH), up 76%, was a standout performer within consumer discretionary. Insider buying as well as better-than-expected results and guidance boosted shares of Sally Beauty Holdings, Inc. (SBH). There were a few other notable performers. Victoria's Secret & Company (VSCO) rallied on an upbeat tone at investor conferences and earnings upside as the turnaround efforts are beginning to show results. Enthusiasm around their Kurt Geiger acquisition and an analyst upgrade led to a rebound in Steven Madden, Ltd. (SHOO) shares. A couple of names hurt performance. Goodyear Tire & Rubber Company (GT) generated disappointing earnings as sales were hurt by increased shipments of foreign tires into the country ahead of tariffs. Marriott Vacations Worldwide Corp. (VAC) lagged as lodging names were pressured by consumer health concerns.

Performance in technology modestly lagged and not owning software companies (primarily bitcoin miners), up 36%, was the largest source of underperformance. Veeco Instruments Inc. (VECO) was a positive highlight, as the company delivered solid results driven by shipments of advanced packaging and deposition systems.

We had slight underperformance in industrials. Titan International, Inc. (TWI) and Science Applications International Corp. (SAIC) hurt performance. Titan International, Inc. (TWI) sold off as the agriculture equipment industry continues to struggle to find a bottom in demand due to weak farmer income. Science Applications International Corp. (SAIC) reported weak results and reduced its long-term targets due to changes in government procurement which are creating a challenging environment for consulting firms. We exited the position. A trio of companies lifted performance. Resideo Technologies, Inc. (REZI) announced the resolution of a long-term liability and spin-off of its distribution business, allowing the stock to re-rate higher. Steelcase Inc. Class A (SCS) agreed to be acquired for a premium. Brink's Company (BCO) reported strong quarterly results that showed continued strength in its fast-growing ATM services and Digital Retail Solutions segment.

Not owning Oklo Inc. Class A (OKLO), up 99%, led to narrow underperformance within utilities.

Stock selection in financials was a minor negative. Higher price competition, especially in Florida, has led to lower growth and expected profitability for Kemper Corp. (KMPR). Lower loan growth led Bank of Hawaii Corp. (BOH) to underperform. Prosperity Bancshares, Inc. (PB) lagged on lower loan growth and deal speculation. Veritex Holdings, Inc. (VBTX), up 30%, aided performance as it agreed to be acquired by Huntington Bancshares (HBAN).

Performance in consumer staples was even. Chefs' Warehouse, Inc. (CHEF) hurt performance. The company gave back gains after strong performance last quarter despite an increase in its sales outlook.

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Overall security selection in energy helped performance, led by Uranium Energy Corp. (UEC) and Scorpio Tankers Inc. (STNG). Uranium Energy Corp. (UEC) benefitted from a number of executive orders focused on quadrupling nuclear energy generating capacity, which have elevated uranium prices and producers. As OPEC pushes more oil into the market, rates for oil and product tankers have spiked, aiding Scorpio Tankers Inc. (STNG). Gulfport Energy Corp. (GPOR) detracted as gas companies sold off over the summer as natural gas prices weakened.

Stock selection in real estate aided performance and was led by Cushman & Wakefield plc (CWK), which advanced 44% thanks to a rebound in capital markets activity.

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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. Investments in smaller 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. 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 can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market, or economic developments and can perform differently from U.S. investments. The portfolio 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 portfolio. 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 2000® Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values. **Beta** measures the price volatility, or the level of risk, of a stock relative to the broader market. A beta of 1 indicates that the security's price has moved with the market. A beta of less than 1 means that the security has been less volatile than the market. A beta of greater than 1 indicates that the security's price has been more volatile than the market.

Fund holdings mentioned in the Quarterly Commentary are as of 9/30/2025 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 9/30/2025 were: Glacier Bancorp, Inc (1.4%), Valley National Bancorp (1.4%), Resideo Technologies, Inc (1.3%), Ameris Bancorp (1.3%), Cushman & Wakefield plc (1.3%), Flagstar Financial, Inc (1.3%), Essent Group Ltd (1.3%), Hancock Whitney Corp (1.3%), Taylor Morrison Home Corporation (1.3%), and SouthState Corp (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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