VICTORY NEWBRIDGE LARGE CAP GROWTH FUND QUARTERLY COMMENTARY

NEWBRIDGE ASSET MANAGEMENT

A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of September 30, 2022

Executive Summary

- The third quarter was once again marked by equity market volatility, as investors grappled with multiple factors – inflation and the Fed's hawkish policy stance likely the greatest influences.
- The portfolio posted a negative return and slightly underperformed its benchmark, the Russell 1000 Growth Index, in the third quarter.
- Earnings season was generally favorable for the portfolio's companies, and fundamentals remain intact, but multiple compression continued during the quarter for many of the portfolio's stocks.
- As always, our focus is on company fundamentals. We will continue to manage the portfolio by investing in companies with market leadership, solid financial bases, responsible management teams, and sustainable revenue and earnings growth.

Market Review

The third quarter was once again marked by equity market volatility, as investors grappled with multiple factors – inflation and the Fed's hawkish policy stance likely the greatest influences. The quarter started off well for growth stocks and the portfolio. Valuations for equities compressed in June, as in previous months, but in July buyers came into the market seeking discounted growth stocks as the 10-year U.S. Treasury yield began to decline once it approached 3.50% in mid-June. The volatile market action squared with other historical bear market rallies, as investors try to determine what actions the Federal Reserve may execute in future meetings. While there was hope in May that the Fed may have reached "peak hawkishness," as evidenced by a brief market rally late in the month, it proved fleeting, as stocks fell in the first two weeks of June. However, the Fed's comments following their July meeting were perhaps not as hawkish as investors expected, and stocks continued to rally. This commentary along with falling commodity prices had some investors believing that the Fed could possibly "pivot" to a less hawkish stance. This belief, too, was ephemeral, as stocks slid from the middle of August in anticipation of the Fed's Jackson Hole conference. At the end of the month, Chairman Powell delivered a relatively terse speech that unequivocally asserted that the Fed was going to continue its "restrictive policy stance for some time" to "restore price stability" (i.e., quash inflation). He said that future Fed actions could lead to some "pain" for the U.S. economy – e.g., potential slowing economic growth, job losses, etc. His statement led to a steep equity market sell-off and to a more pronounced Treasury yield curve inversion. It remains unclear if the Fed can generate a soft landing for the economy and avoid recession, but with Powell's comments it seemed clear that the Fed is willing to bear a recession to crush inflation, which has come down some in the last month but remained near historically high levels. The Fed believes that "a failure to restore price stability would mean far greater pain." The Fed's decision to further raise interest rates and shrink its balance sheet will be dependent on the "totality of the incoming data and the evolving outlook." (Quotes are taken from Powell's speech, August 26, 2022). September also marked another volatile period for equity markets. Equities rallied early in the month following the Jackson Hole Conference until the August Consumer Price Index (CPI) – released on September 13 – came in hotter (sequentially higher) than expected and dashed investor hope for a near-term pivot from the Federal Reserve's hawkish policy stance. Equity markets sold off significantly immediately following the report and continued a downward trajectory through the end of September. The equity market downturn was further fueled by another 75-bps interest rate hike and commentary from the Fed that conveyed in no uncertain terms its desire to suppress inflation despite the risk of creating "pain" for the economy. In other words, the Fed strongly reiterated its stance that it is willing to accept a recession and job losses if it leads to lower inflation. There are several market prognosticators that believe the Fed's aggressive policy will now lead to a deeper recession. The risk of a Fed policy mistake has worn on equity markets. The equity markets were also alarmed by announced fiscal policy initiatives in the U.K., which most viewed as being ill-timed and likely to add to inflationary pressure. These actions also pushed the U.S. dollar higher, which will likely further pressure U.S.-based multinational companies' financial results in the ensuing months.

During the quarter, we continued to hear from many major retailers that they have too much inventory in their warehouses and in stores. This imbalance was created by retailers' optimistic sales forecasts that miscalculated the benefits they experienced from last year's government stimulus money and generated extremely difficult year-over-year comparisons, delayed shipments of seasonal goods due to lingering supply chain challenges, and demand destruction resulting in higher prices for non-discretionary goods. The silver lining here is that, while retailers will be forced to discount the glut of goods and negatively affect their margins, the effect is deflationary for the economy and good for the consumer.

The 10-year Treasury yield was 3.80% at the end of the third quarter – a 140% rise from the end of last year and 27% higher than at the close of the second quarter. While unemployment remains low, inflation remains high, and the yield curve is currently inverted, with 2-year and 5-year Treasuries yielding higher than the 10-year Treasury – a potential recession indicator. The Fed and investors will continue to follow soft and hard economic data, some of which have shown relative weakness of late; this dynamic has the potential to create a "bad news is good news" scenario for equities, whereby the Fed may reconsider its current hawkish policy path. That potential "pivot" seems somewhat improbable at the moment, but upcoming data may be influential.

Portfolio Review

In this high-inflationary environment, secular growth stocks generally suffered versus value stocks, as evidenced by relative

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outperformance of value versus growth since the August CPI report (September 13). Despite mostly solid company fundamentals, the portfolio saw many of its constituents underperform during the quarter, as they experienced multiple contraction in the face of the highest inflation rate in four decades and a more hawkish Fed. Equity style rotations are natural to investment cycles, and either provide the portfolio with headwinds or tailwinds. The portfolio has primarily experienced headwinds since the Fed's hawkish pivot in mid-November 2021 but has benefited from style tailwinds on short-lived occasions. Volatility among styles will likely continue.

From a fundamental perspective, the companies in the NewBridge portfolio reported solid quarterly financial results in aggregate. That said, as in previous quarters, those that showed mixed results and guidance saw their stocks trade lower. The sell-offs continue to be intensified by risk aversion related to relatively high equity valuations, especially in a volatile environment that has grown wary of higher future interest rates. Still, we continue to believe that the underlying fundamentals and growth prospects of the portfolio's components remain intact, and we have made changes to reflect further potential risks and opportunities.

While we have been disappointed with the portfolio's performance this year and the negative reactions to some of the portfolio companies' financial results and guidance issuance, we are not dissuaded and remain steadfast in our adherence to our investment philosophy and process. As always, we will continue to focus on fundamentals of the portfolio's companies and look for opportunities to improve the portfolio's composition of growth and quality.

The best relative performing quantitative factors during the third quarter represented Growth (Composite Growth, Estimated Long-Term Growth, and Sales Growth), Risk (Beta), and Momentum (Earnings Revisions). The portfolio was overweight each of those factors. Reflecting factor volatility, these were among the worst performing factors in the second quarter. The worst performing quantitative factors in the third quarter were Value (Composite Value [Sector Relative], E/P Forward [Sector Relative], Composite Value, E/P Trailing [Sector Relative]) and Quality (Change in Net Margin). The portfolio was underweight each of these underperforming factors. The distribution of factor leadership indicated moderate style tailwinds for the portfolio during the quarter.

We maintained our high-growth, high-quality mandate throughout the quarter. The portfolio is composed mostly of emerging growth and established growth cycle[2] companies, along with a smaller allocation to mature growth companies. At the end of the quarter, two growth cycle categories made up 80% of the portfolio. Established growth, at 48%, was the portfolio's largest growth cycle constituent versus the Russell 1000® Growth Index's allocation of 51%. The portfolio's emerging growth holdings represented 32% of the portfolio, whereas the benchmark had 20%. The mature growth category represented 17% of the portfolio and 22% of the benchmark. For both the portfolio and the benchmark, the emerging growth category stocks fared worst, followed by established growth and mature growth. The portfolio's emerging growth holdings underperformed those of the benchmark, while the portfolio's established and mature growth stocks outperformed during the quarter.

As of September 30, 2022, the portfolio consisted of 33 companies, with the top ten representing approximately 45%. Sector (GICS) weights at quarter-end were: Information Technology (40.0% vs. 42.7% for the Index weight); Consumer Discretionary (21.5% vs. 17.1%); Health Care (14.1% vs. 12.2%); Communication Services (9.5% vs. 7.6%); Industrials (6.5% vs. 7.2%); Financials (4.9% vs. 3.0%); Consumer Staples (0.0% vs. 5.7%); Real Estate (0.0% vs. 1.6%); Materials (0% vs. 1.4%); and Energy (0.0% vs. 1.5%). Active share was 77%.

Return Attribution

The portfolio's companies reported financial results during the third quarter that were encouraging in aggregate, but the tone of the market has become more negative since the last quarter, as investors try to determine if downward earnings revisions are reflected in the market. The portfolio had a mix of companies that saw their stocks rise significantly following their respective earnings call, while others fell precipitously after posting results. We took advantage of several outsized positive stock returns by trimming their positions during the quarter. The portfolio posted a negative return but slightly underperformed its benchmark.

Industrials was the portfolio's best performing sector during the quarter, which benefited by owning Uber Technologies (+29.5%) and CoStar Group (+15.3%). Each company reported better than expected quarterly financial results and the stocks were rewarded. Uber has acted better as investors have applauded the company's focus on driving cash flow and profitability. The portfolio's Communication Services sector also outperformed the benchmark. Trade Desk, Inc. (+42.6%) was the sector's and portfolio's best performer during the quarter. Management reported outstanding quarterly financial results, which drove the stock higher. Its strength helped to mitigate weakness in Meta Platforms, Inc. (-15.9%) and Alphabet, Inc. (-12.1%). The portfolio's Financials sector stocks were mixed, with MSCI, Inc. (+2.6%) outperforming, while Blackstone, Inc. (-7.1%) underperformed primarily on funding risks associated with a higher interest rate environment. The portfolio's Consumer Discretionary sector holdings underperformed those of the benchmark, as weakness in NIKE, Inc. (-18.4%) and Aptiv, PLC (-12.2%) was mixed with strength in O'Reilly Automotive (+11.3%) and Airbnb, Inc. (+17.9%). Most of NIKE's underperformance came following the announcement that inventory levels in North America were higher than investors expected. As a result, the company will have to clear merchandise, pressuring future margins and earnings. The portfolio's relative return within Consumer Discretionary was also negatively affected by not owning Tesla, Inc. (+18.2%), which contributed 45 bps to the benchmark's return during the quarter. Within the portfolio's Information Technology sector, Arista Networks, Inc. (+20.4%) and Cadence Design Systems, Inc. (+8.9%) led, while ServiceNow, Inc. (-20.6%) and Adobe Incorporated (-24.8%) underperformed. ServiceNow delivered disappointing quarterly financial results in July. Adobe announced their intent to acquire Figma for $20 billion in cash and stock. Adobe's stock sold off, as many believe the valuation assigned to Figma is too high despite the asset likely representing a good strategic fit. The portfolio's Health Care sector holdings underperformed those of the benchmark. Weakness in Veeva Systems, Inc. (-16.7%) and Zoetis, Inc. (-13.6%) represented the largest relative detractors within the sector.

Each stock reported mostly in-line quarterly results, but investors seemed to have expected more. We believe both are well positioned for long-term growth. The portfolio benefited by not owning Consumer Staples and Real Estate sector stocks, as those groups underperformed the portfolio's return and that of the overall benchmark. The benchmark's Energy stocks outperformed during the quarter; the portfolio does not have exposure to that sector.

Although some of the portfolio's companies came in short of consensus expectations, overall we were encouraged with the portfolio's company-specific fundamentals during the third quarter and remain confident that its constituents should be able to show solid financial results in the future. The quarter was clearly challenging, but we believe most of the weakness was due to the Fed's more hawkish stance, not because of a broad degradation in company fundamentals. That said, we sold or trimmed stocks that we believed could show more sustained fundamental weakness.

Portfolio Actions

We made several changes to the portfolio in keeping with our long-term, "bottom-up" investment approach. During the quarter, we introduced one position and sold one. We also increased and trimmed several existing positions. We took advantage of the rapid rise in certain portfolio stocks and opportunistically trimmed them prior to the sell-off later in the quarter. We will look to potentially add back to those positions if the market falls further and company fundamentals do not deteriorate. We continue to be diligent in our search for investment opportunities and expect to continue our efforts to upgrade the portfolio while maintaining our investment discipline.

New Positions:

PayPal Holdings, Inc. (PYPL) – PayPal develops technology platforms for digital payments. Its solutions include PayPal, PayPal Credit, Braintree, Venmo, Xoom, and Paydiant products. Having owned PYPL since May 1, 2017, we sold the position April 18, 2022, as the company fundamentals deteriorated, revenue and earnings slowed from pandemic-fueled levels, and CFO John Rainey announced his departure to take the same role at Walmart. Recently, we have grown incrementally more confident in the stock's prospects.

The catalysts that led us to reinvest in PYPL are:

- PYPL announced that activist investor Elliott Investment Management made a $2B investment in the company.
- Blake Jorgensen, formerly CFO/COO of Electronic Arts, was announced as PYPL's new CFO.
- Management reset revenue growth at 12% from consensus expectations of 14%.
- Year-over-year comparisons get easier in the second half of 2022.
- Cost savings earmarked for 2022 will be $900M, increasing to $1.3B in calendar year 2023.
- Announced $15B buyback in addition to the $2.7B left on the existing authorization, reducing the possibility of a large acquisition.

In our view, the catalysts improve stability, minimize the risk of squandering a significant cash balance, and reset investor expectations. Although the involvement of Elliott Investment Management and a refocus on expense management and capital allocation is a welcome change for most investors, we are mindful that it took longer than expected for the same playbook to turn around Cognizant. The addressable market is large and growing fast but also has plenty of competition, and newer entrants such as Apple are well funded and formidable. We look forward to further progress as opportunities to rebuild the position.

Eliminated Positions

Burlington Stores, Inc. (BURL) – After exercising patience with the shares and earlier trimming the position to 1%, we sold the remaining shares from the portfolio in July. The stock has struggled this year (like many other retailers) as it lapped government stimulus from last year and its core consumer base remains challenged by inflation, especially higher gasoline prices. Additionally, retailers like Target, Walmart, and others have reported about the glut of merchandise (including apparel) in the market that will likely have to be discounted significantly to clear from store shelves. While the oversupply in inventory will likely present BURL and other off-price retailers with tremendous buying opportunities, the near- to intermediate-term sales environment remains challenged as "deals" can be had in multiple retail formats and traffic to their stores wanes.

Strategy & Outlook

As outlined above, the market environment has been challenging for equity investors – both growth and value, as reflected in September's equity market swoon. We believe we have identified the areas of the portfolio with the greatest risks and have trimmed those holdings or eliminated them. We continue to own several longer duration stocks and are confident in their ability to grow over time; common to them all are rapidly growing, disruptive product and services offerings, which we believe warrant a premium. We initiated or added to positions in historically less volatile, higher-quality growth compounders. These portfolio moves are by no means indicative of a deviation, but a continued acknowledgement of the inherent risks associated with highly volatile stocks in the current market environment. We continue to own secular growth stocks that we believe deserve premium valuations and will look for opportunities to add others.

We continue to believe that investors could become more attracted to growth stocks this year, as the business cycle enters a slowing economic phase that may be accelerated by the data-dependent Fed, which will closely monitor financial conditions and will likely raise interest rates on several occasions this year. We maintained our investment discipline, philosophy, and process by focusing on company fundamentals in our search for investment opportunities. We believe we have constructed a portfolio of industry-leading growth companies that should continue to post attractive financial results in what may continue to be a volatile period for stocks.

We live in a dynamic world where economic data, corporate news, and geopolitical shocks can rapidly shift investor sentiment. As we go through 2022, we recognize several risks to the portfolio and to the equity market in general. Some of those potential headwinds include: a Fed policy surprise or mistake, continued inflationary pressures, COVID-related issues, geopolitical risks, equity valuations and rotations, and the midterm elections. However, we remain optimistic for the future, as employment remains resilient, supply chain disruptions should ease over time, corporate profits still appear supportive, business digitization continues, and liquidity, albeit lower, remains in the system. Overall, it is our contention that the opportunities should outweigh the risks and be supportive for the portfolio.

Top 5 Contributors (%)	Contribution to Absolute Return
Trade Desk, Inc. Class A	0.66
Uber Technologies, Inc.	0.52
Arista Networks, Inc.	0.44
Cadence Design Systems, Inc.	0.40
O'Reilly Automotive, Inc.	0.33
Top 5 Detractors (%)	**Contribution to Absolute Return**
ServiceNow, Inc.	-0.86
Alphabet Inc. Class C	-0.73
Adobe Incorporated	-0.64
NVIDIA Corporation	-0.56
Visa Inc. Class A	-0.46

Top Ten Holdings	% Fund
Alphabet Inc. Class C	6.46
Amazon.com, Inc.	6.29
Visa Inc. Class A	5.10
O'Reilly Automotive, Inc.	4.26
Cadence Design Systems, Inc.	4.24
Microsoft Corporation	4.07
Zoetis, Inc. Class A	3.82
ServiceNow, Inc.	3.76
Thermo Fisher Scientific Inc.	3.76
NVIDIA Corporation	3.49

Investment Performance (%)

Average Annual Returns as of September 30, 2022

Victory NewBridge Large Cap Growth Fund (Class A – VFGAX)	Q3 2022	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (12/31/03)	Expense Ratio Gross	Expense Ratio Net
A Shares, without sales charge	-3.65	-39.39	-38.05	3.01	4.77	7.64	6.89	1.56	1.36
A Shares, with sales charge (max. 5.75%)	-9.17	-42.88	-41.65	1.00	3.53	7.01	6.55	1.56	1.36
Russell 1000® Growth Index	-3.60	-30.66	-22.59	10.67	12.17	13.70	–	–	–

Source: Victory Capital data analyzed through Zephyr

Past performance does not guarantee future results. The performance quoted represents past performance and current performance 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 for periods greater than one year is annualized. Other share classes are available. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which, fund performance would have been lower. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through February 28, 2023.

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.

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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. Fund holdings mentioned in the Quarterly Commentary are as of the most recent quarter end 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. 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. **Active Share** is a measure that compares the proportion of security holdings within the product against those of the respective benchmark. The value represents the percentage difference between fund and benchmark. **Growth Cycles**: A growth and value score is calculated for each company and is utilized to assign companies into five baskets. Growth score components include: long-term forward growth, 1-year forward EPS growth rate, 5-year earnings growth trend, and 5-year sales growth trend. Value score components include: price to book, dividends, and forward price to earnings. **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 is contribution to return. Holdings are as of quarter end and may change at any time.

The Russell 1000® Growth Index is a market-capitalization-weighted index that measures the performance of Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. **The Russell 1000® Value Index** is a market-capitalization-weighted index that measures the performance of the Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth rates.

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