

Market Commentary

It was quite a year for stocks in 2020, and the manner in which the fourth quarter ended just might prove to be an inflection point for value-oriented equity strategies. Are we finally on the cusp of a longer-term rotation away from technology and growth stocks? Only time will tell, but there have been promising signs that we may be in the early stages of a new economic cycle, which in turn could favor traditional value sectors.

To understand where we are in the cycle today might require a look back at this historic and unusual year. In the first quarter of 2020, an emerging pandemic shook the markets globally. Stocks were pummeled by SARS-CoV-2 (severe acute respiratory syndrome coronavirus 2, the virus responsible for COVID-19). But almost just as quickly, U.S. equity markets rebounded in the second quarter and continued to move sharply higher to start the third quarter before taking a breather in September. And then the year ended with the strongest fourth quarter equities rally in history.

The massive fiscal and monetary stimulus that helped keep businesses open, people in their homes, and important services funded during the early stages of the economic downturn obviously fueled financial markets. Then came growing optimism for an effective vaccine (developed faster than even the best-case scenario). On top of that, election clarity and the potential for less mercurial policies of a new presidential administration also helped push investor sentiment to a multi-decade level of exuberance. And once again in the fourth quarter, stocks were propelled by expectations for more fiscal stimulus.

After much negotiating and drama, Congress delivered on its fiscal promise with more direct payments, more unemployment insurance, and additional aid to businesses. All this fiscal stimulus appears to have bridged the pre-pandemic economy to what is slowly emerging as a “new normal” economic environment. It also has been a catalyst for a rotation into the market’s cheaper and economically sensitive sectors during the fourth quarter. The monetary and fiscal backdrop may, in our opinion, be setting up nicely for longer-term tailwinds for value-oriented strategies.

In terms of style performance during the fourth quarter, value-oriented stocks, as measured by the Russell 3000® Value Index,¹ increased 17.21%. This bested growth-oriented stocks, as measured by the Russell 3000® Growth Index,² which were up 12.41% during the same period.

Small-cap, mid-cap, and large-cap stocks all performed well during the quarter, as measured by the Russell family of indices. The Russell 2000® Index³ rebounded sharply on a relative basis, returning 31.37% during the fourth quarter, while the Russell Midcap® Index⁴ returned 19.91% and the Russell 1000® Index⁵ returned 13.69%. Meanwhile, the Russell 2000® Value Index⁶ was the best performing U.S. equity style, up 33.36% during the fourth quarter. This reflects, in part, the view that small-cap value companies that had not participated in the strong performance of U.S. equity markets were priced too conservatively.

Performance Review

For the three months ended December 31, 2020, the Victory RS Partners Fund (A shares at NAV) marginally underperformed its benchmark Russell 2000® Value Index (the “Index”) and returned 32.73% net versus 33.36% for the Index.

In the fourth quarter, relative underperformance was driven by challenged stock selection in the Materials and Consumer Staples sectors, which more than offset strong performance in Industrials.

Investment Strategy

The RS Value Team seeks to invest in good companies, led by strong management teams, which 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 Return on Invested Capital (ROIC)–focused investors and seek to invest in companies that can 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 return on invested capital (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 are able to navigate through short-term market volatility and 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 future 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 higher correlation to improving ROIC as opposed to traditional valuation measurements like price to earnings (P/E). We seek to invest in companies that 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.

Carter's (CRI) is the largest multi-channel branded marketer and retailer in North America of apparel exclusively for babies and young kids, operating under the "Carter's" and "OshKosh B'gosh" brands. As the scale player in the marketplace they have an advantageous production cost position relative to competition. We established a position in the company starting in 2Q 2020 and have continued to add to the position throughout the year. As one might expect from a business operating in the retail channel, Carter's business suffered in 2020 as their own stores as well as some of their wholesale partners' stores were required to temporarily close and operate under limited capacity restrictions as a result of the pandemic. Given the company's fortress balance sheet with over \$1 billion in cash and little net debt, we had zero doubt that the company could weather the short-term impact created by the pandemic. As the economy reopens and retail traffic normalizes, sales and profits at Carter's should recover to at or above pre-pandemic levels. With many weaker competitors forced to permanently shutter doors, we believe Carter's has the opportunity to take meaningful market share in a post-pandemic world. In addition, many of the cost and pricing initiatives undertaken by the company during 2020 will carry over into the future, leading to meaningfully improved profitability and ROIC. Lastly, the company is in the early innings of a decade-long international growth opportunity which will add to profitability. As all of these things unfold over the next 2-3 years we believe there's meaningful upside in Carter's share price.

Treehouse Foods (THS) is the largest private-label (PL) food manufacturer in the U.S. The company sells goods in over two dozen food categories to U.S. grocers, including Walmart, Costco, Amazon, Kroger, Trader Joe's, and Aldi. After years of mixed results for the company, Steve Oakland was appointed as the company's new CEO in 2018. Under his leadership, the company undertook an effort to optimize its category portfolio, improve manufacturing and customer service levels, and drive company-specific ROIC improvement. We established a position in the company during the back half of 2019 and early 2020, as shares traded well below our assessment of intrinsic value. While food companies in general performed fundamentally well during 2020, private-label categories underperformed on a relative basis during the pandemic due to the complexity of their supply chains, which caused in-stock positions to be less than optimal during this time of elevated demand. In addition, Treehouse shares underperformed the market in the back half of 2020 as the market rotated to more cyclically exposed areas of the market. The stock now trades as

cheaply as it ever has in its 15-year life as a public company and well below our assessment of intrinsic value. Our conversations with food retail channel partners underscore the belief that the market share shifts of 2020 are temporary and that future demand for Treehouse's private-label categories will be quite strong. We see shares recovering nicely over the next couple years as the improved operating performance under the leadership of its new CEO unfolds.

Outlook

The range of outcomes for 2021, while more optimistic, rests on the rollout and efficacy of recently approved vaccines to fight COVID-19. Volatility, economic activity, and the level of interest rates will be impacted by the level of success of the vaccines. In addition, the United States presidential election has resulted in a shift in power, which provides some uncertainty as to how policy decisions may impact the economy and markets.

Interest and mortgage rates continue near historically low levels, inflation is nonexistent, and the economy struggles while we await broad distribution of the vaccines. We remain very watchful of inflation, particularly as a result of the size and speed of the monetary and fiscal response to the pandemic. We continue to carefully monitor the corporate debt market, but in general, U.S. corporate balance sheets are in better shape with access to low-cost debt. The Federal Reserve has stepped in to provide liquidity to support risk assets, but there does remain some concern regarding insolvency for some businesses if the absolute level of economic activity remains weak.

Equity valuations are in the top decile compared to historical levels, in part due to depressed earnings from COVID-19, but also as a result of multiple expansion in the six largest mega-cap stocks in the S&P 500[®]. Excluding the six largest mega-cap stocks, valuations are more reasonable, particularly if compared to the 10-year U.S. Treasury yield. Recovery in aggregate earnings will be tempered, as certain industries such as hospitality, entertainment, banking, and travel will take longer to return to pre-coronavirus levels. However, equities continue to look attractive when compared to Treasuries and high-grade corporate bonds after the flight to safety rally during the crisis. In any case, we feel the values inherent in your portfolio should attract other investors and acquirers over time.

We thank you, as always, for your support.

Sincerely,

RS Value Team

Sector Allocation⁷

As of December 31, 2020

Sector	% of Portfolio
Financials	30.85
Industrials	16.19
Information Technology	11.18
Consumer Discretionary	8.93
Real Estate	8.12
Materials	6.80
Energy	4.01
Consumer Staples	3.88
Health Care	2.22
Utilities	2.11
Communication Services	1.86

Top 10 Holdings⁸

As of December 31, 2020

Holding	% of Portfolio
Verint Systems Inc.	3.85
Ameris Bancorp	3.25
Graphic Packaging Holding Company	3.00
NCR Corporation	2.71
Euronet Worldwide, Inc.	2.48
Alleghany Corporation	2.34
Atkore International Group Inc.	2.23
Hostess Brands, Inc. Class A	2.21
Dana Incorporated	2.19
Talend SA Sponsored ADR	2.13

Performance

Average Annual Total Returns as of December 31, 2020

Victory RS Partners Fund (Class A – RSPFX)	Fourth Quarter 2020	1-Year	3-Year	5-Year	10-Year	Since Inception (7/12/95)
without sales charge	32.73%	0.46%	4.92%	10.35%	8.21%	10.71%
with maximum sales charge (5.75%)	25.10%	-5.31%	2.87%	9.05%	7.57%	10.45%
Russell 2000 [®] Value Index ⁶	33.36%	4.63%	3.72%	9.65%	8.66%	9.50%

Performance returns for periods of less than one year are not annualized. Returns include reinvestment of dividends and capital gains.

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. High double-digit returns are unusual and cannot be sustained. Investors should be aware that these returns were primarily achieved during favorable market conditions.

The Fund's total gross/net annual operating expense ratio as of the most current prospectus for the Class A Shares is 1.52%/1.45%. 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 3 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.

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. Investing in small and mid-size companies can involve risks such as having less publicly available information, higher volatility, and less liquidity than in the case of larger companies. Overweighting investments in certain sectors or industries increases the risk of loss due to general declines in the prices of stocks in those sectors or industries. Foreign securities are subject to political, regulatory, economic, and exchange-rate risks not present in domestic investments.

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 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.

2 The Russell 3000[®] Growth 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 higher price-to-book ratios and higher forecasted growth values.

3 The Russell 2000[®] Index is an unmanaged market-capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000[®] Index, which is made up of the 3,000 largest U.S. companies based on total market capitalization.

4 The Russell Midcap[®] Index is an unmanaged market-capitalization-weighted index that 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.

5 The Russell 1000[®] Index is an unmanaged market-capitalization-weighted index that measures the performance of the 1,000 largest U.S.-traded stocks.

6 The Russell 2000[®] Value Index is an unmanaged 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. (The Russell 2000[®] Index measures the performance of the 2,000 smallest companies in the Russell 3000[®] Index, which consists of the 3,000 largest U.S. companies based on total market capitalization.)

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.

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. Read the prospectus carefully before investing.

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