

# VICTORY RS VALUE FUND QUARTERLY COMMENTARY

As of June 30, 2025

Who flipped the switch? The start of the second quarter looked bleak, with a steady drumbeat of dismal news for equities investors. The tariff-induced sell-off accelerated in early April, and there was much talk of inflation and recession. But almost just as quickly, markets bounced back smartly. The S&P 500® Index,<sup>1</sup> a popular proxy for the overall domestic stock market, logged new all-time highs and delivered an impressive return of 10.9% for the second quarter. The catalyst for the abrupt shift in sentiment was, not surprisingly, tariff related. Shortly after the “Liberation Day” tariff announcement that roiled markets, there was a perceived softening in the administration’s trade policy stance that seemed to fuel an abrupt change in sentiment.

With the realization (at least for the moment) that tariffs would be less draconian than previously feared, many of the old market leaders—but not all—were back in vogue. Information Technology stocks, which were being eschewed early in the year due in part to high valuation concerns, once again led the market upward. Communication Services and Industrials also drove the market higher during the second quarter, while some of the more traditional value-oriented sectors—such as Energy, Health Care, Real Estate and Basic Materials—lagged the broader market.

Our particular area of focus—domestic value-oriented equities—also participated in the second-quarter rally and has experienced far less volatility than the wild swings seen in growth-oriented stocks this year. The Russell 3000® Value Index,<sup>2</sup> our proxy for the value universe, ended the quarter with a solid quarterly gain of 3.8%, albeit lagging the 17.6% gain for the Russell 3000® Growth Index.<sup>3</sup> In terms of market capitalizations, small-cap and mid-cap value stocks, as represented by the Russell 2000® Value Index<sup>4</sup> and the Russell Midcap® Value Index,<sup>5</sup> increased 5.0% and 5.4%, respectively. Meanwhile, large-cap value stocks, as represented by the Russell 1000® Value Index,<sup>6</sup> increased 3.8% during the same period.

With regard to style boxes, large-cap growth stocks were the clear winners during the second quarter. It seemed that when risk was off, the higher valuation large-cap growth stocks were punished (along with more speculative smaller growth), only to see investors pile back in, looking for “bargains,” when sentiment turned positive. This may seem a tad simplistic, but this type of pendulum action has been a recent reality for the fast-money crowd. Yet underneath these headlines, it’s important to remember there are countless individual businesses that move independently of the generic market action. Moreover, the earnings potential of many companies, as well as their relative value on a risk-reward basis, is often overlooked. In our view, this type of environment should reward prudent fundamental stock analysis.

## Looking Ahead

The second quarter market may have favored the growth style, and Technology and Communication Services sectors in particular, but does this mean we are back to the days when the Magnificent Seven roar higher to the exclusion of all other attractive businesses? We don’t think so. In fact, there is much we don’t know at present. For example, will trade policy continue in the best-case scenario, as many growth stocks are acting, or will the

administration change course again? We think investors should be prepared for additional bouts of volatility. There are also questions regarding monetary policy. More recent statements by the Federal Reserve suggest some willingness to lower rates later this year, but again that’s subject to change. It’s always data-dependent, as the Fed likes to say. And, unfortunately, geopolitical hotspots around the globe remain in place.

All this suggests to us that the best path forward is taking an unemotional, long-term view. Managing portfolios with an eye toward downside protection is never a bad idea, in our opinion, and it doesn’t preclude finding intriguing businesses at attractive valuations. We continue to believe that actively managed, value-oriented approaches should be well positioned going forward. And in this uncertain environment, we think that companies with sound balance sheets should be favored. Our team will continue to search for companies with a combination of improving ROIC (return on invested capital) and stock prices trading at what we perceive as a discount to intrinsic value. We believe this gives us the best opportunity to generate attractive risk-adjusted returns over longer time periods in all environments, not just when sentiment is improving.

## Performance Review

For the three months ended June 30, 2025, the Victory RS Value Fund (A shares without sales charge) underperformed its benchmark Russell Midcap® Value Index (the “Index”) and returned 2.61% versus a return of 5.35% for the Index.

In the second quarter, strong performance from stock selection in Health Care and Industrials aided relative performance, while stock selection in Consumer Discretionary and Financials detracted.

## Investment Strategy

The RS Value Team seeks to invest in good companies, led by strong management teams, that 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 ROIC-focused investors and seek to invest in companies that we believe have the potential to 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 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 we expect will be able

to navigate through short-term market volatility and appear to be poised to 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 expected 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 strong correlation to improving ROIC as opposed to traditional valuation measurements like price to earnings (P/E). We seek to invest in companies that we believe can create shareholder value due to an improvement in the returns of the company's 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 risk. 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.

**CACI International (CACI)** provides information technology products and services, predominantly to the United States federal government. In its last fiscal year, the company received 74% of its revenues from the U.S. Department of Defense while another 21% of its revenues came from federal civilian institutions, including various intelligence agencies. The company currently benefits from bipartisan support for defense and security initiatives and is an important part of many mission-critical efforts. The share price has performed well recently as concerns over government efficiency efforts and possible funding cuts appear to have been overblown with respect to the capabilities and services CACI provides. We believe CACI should continue to create value for our shareholders as it executes on its customers' existing programs while benefiting from a growing set of future opportunities.

**White Mountains Insurance Group, Ltd. (WTM)** underperformed in the quarter. The financial services holding company was founded by Jack Byrne, famed for revitalizing GEICO. The company focuses on property and casualty insurance, municipal bond insurance, and asset management. Our investment in WTM is based on our conviction that the intrinsic value of the diverse businesses within the company's portfolio substantially exceeds current market valuation, with significant potential for value realization in the

foreseeable future. Furthermore, we believe the company's underlying businesses align with our core investment principles, as they are characterized by robust balance sheets, strong cash flows, and improving returns on invested capital (ROIC). These financial strengths provide a solid foundation, offering resilience and stability in turbulent market conditions while also providing the potential for material value creation. Our long-term investment thesis remains unchanged, and we are steadfast in maintaining our position in the company.

### Outlook

The new administration's pursuit of an "economic renaissance" focuses on revitalizing American manufacturing and on tax cuts and deregulation. However, escalating trade deficits and a shift toward more protectionist policies have introduced significant uncertainty, overshadowing these goals. The potential long-term effects of these policies remain unclear, impacting global currencies as well as equity and fixed income markets. Uncertainty surrounding the passage of the federal budget bill further complicates the economic outlook, as its approval and provisions could influence fiscal stimulus and market dynamics. The Federal Reserve is likely to delay action until protectionist policies and the budget bill's outcome provide more clarity, but it remains prepared to provide liquidity if needed.

Housing market pressures persist due to higher interest rates and affordability challenges, though a decade-long housing shortage should prevent severe price declines. Lower-income consumers face strain from inflation, yet most Americans' balance sheets and consumer credit quality remain robust. Uncertainty around protectionist policies and the budget bill clouds predictions about inflation and interest rates, as their combined effects could either intensify or moderate price pressures.

We anticipate a potentially more inflationary and higher interest rate environment than the past decade. Our quality-focused investment approach aims to balance downside protection with upside potential. We remain optimistic about reduced regulation and a favorable M&A environment under the new administration, continuing to target high-quality businesses with improving returns on invested capital (ROIC), strong balance sheets and robust cash flows, where share prices diverge from fundamentals.

We thank you, as always, for your support.

Sincerely,

RS Value Team

**Sector Allocation<sup>7</sup>**

As of June 30, 2025

Sector	% of Portfolio
Communication Services	0.78%
Consumer Discretionary	7.67%
Consumer Staples	6.26%
Energy	6.33%
Financials	23.12%
Health Care	8.27%
Industrials	18.15%
Information Technology	8.32%
Materials	4.26%
Real Estate	7.93%
Utilities	6.63%

**Top 10 Holdings<sup>8</sup>**

As of June 30, 2025

Holding	% of Portfolio
Globe Life Inc.	4.34%
SS&C Technologies Holdings, Inc.	2.75%
NNN REIT, Inc.	2.48%
NICE Ltd. Sponsored ADR	2.41%
FirstEnergy Corp.	2.33%
Teva Pharmaceutical Industries Limited	2.32%
Encompass Health Corporation	2.27%
Everest Group, Ltd.	2.24%
LKQ Corporation	2.22%
US Foods Holding Corp.	2.21%

Holdings are subject to change and should not be considered purchase recommendations.

**Performance**

Average Annual Total Returns as of June 30, 2025

Victory RS Value Fund (Class A – RSVAX)	Second Quarter 2025	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (6/30/93)
without sales charge	2.61%	0.88%	7.17%	9.35%	13.71%	7.45%	7.73%
with maximum sales charge (5.75%)	-3.27%	-4.92%	1.01%	7.21%	12.37%	6.82%	7.53%
Russell Midcap <sup>®</sup> Value Index <sup>5</sup>	5.35%	3.12%	11.53%	11.34%	13.71%	8.39%	10.48%

**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](http://www.vcm.com).** Returns include reinvestment of dividends and capital gains. Performance returns for periods of less than one year are not annualized. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which Fund performance would have been lower. Performance information for the Fund's Class A shares prior to July 30, 2016, reflects the historical performance of the Class A shares of the RS Value Fund, a series of RS Investment Trust (the predecessor to the Fund managed by RS Investment Management Co. LLC) (the "predecessor fund"). The Fund's performance has not been restated to reflect any differences in expenses paid by the predecessor fund and those paid by the Fund. Other share classes are available for which performance and expenses will differ. Not all share classes are available to all investors. The Fund's total gross/net annual operating expense ratio as of the most current prospectus for the Class A Shares is 1.33%/1.30%. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through April 30, 2026.

**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](http://www.vcm.com/prospectus). Read it carefully before investing.**

**All investing involves risk, including the potential loss of principal.** Investments in small- and mid-cap companies typically exhibit higher volatility. 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. 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. To the extent the Fund invests in a small number of issuers, its value may be more negatively affected by a decline in the market value of a particular security than if the Fund invested in a larger number of issuers.

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 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. 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 S&P 500® Index is a market-capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- 2 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.

- 3 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.
- 4 The Russell 2000® Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index (which consists of the 2,000 smallest-cap companies in the Russell 3000® Index) with lower price-to-book ratios and lower forecasted growth values.
- 5 The Russell Midcap® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell Midcap® Index with lower price-to-book ratios and lower forecasted growth values. (The Russell Midcap® Index 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.)
- 6 The Russell 1000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index (which consists of the 1,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.
- 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.

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