



Asset Management®

A VICTORY CAPITAL® INVESTMENT FRANCHISE

2022 SMALL CAP STRATEGY

# IMPACT REPORT

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# Investment Philosophy

THB believes there is a strong linkage between high-quality companies, good corporate citizenship and long-term shareholder value creation. THB has a 30-year history of managing SRI portfolios and full ESG integration was a natural extension to our fundamental research process. ESG risks and opportunities are measured and analyzed throughout every phase of the investment process. As a member of the UNPRI<sup>1</sup> and a signatory of the Montreal Carbon pledge, THB fully supports the Principles for Responsible Investment.





# Objective and Process

The THB Small Cap strategy seeks long term capital appreciation over full market cycles by using a disciplined, valuation-based approach. THB uses a bottom-up, fundamental research investment process integrated with analysis of a company's Environmental, Social and Governance ("ESG") factors to identify high quality companies it believes have the ability to sustainably grow shareholder equity.

THB applies its ESG rating methodology to each company when making portfolio decisions. The portfolio management team gathers relevant ESG data using multiple primary and secondary sources such as company filings, discussions with management, news, and a number of third-party data providers. ESG data may include metrics regarding a company's carbon emissions, water utilization, employee diversity and director independence, among other things.

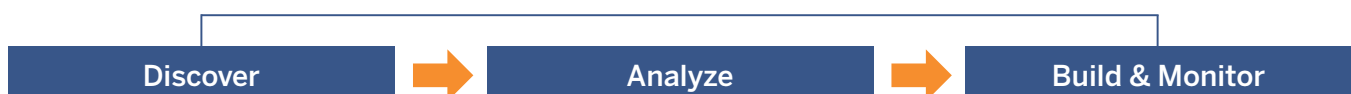
We take a holistic view of ESG including what companies are doing, their size and environment they are operating in. These efforts and due diligence

provide greater understanding of how nuanced ESG can be. THB does not exclusively rely on any third-party ESG ratings or scores during the portfolio construction process to make investment decisions and its own proprietary ratings could differ from those of a third party. THB's internally developed ESG rating methodology aligns with the investment process and philosophy. THB groups ESG factors into 16 main categories across the three ESG pillars, which include without limitation the risks and opportunities related to:

- > **Environment:** climate change, energy efficiency, green technology, water and air pollution, material recycling
- > **Social:** health and safety, labor practices, supply chain management, community impact
- > **Governance:** board diversity and independence, executive compensation, financial reporting



**The THB ESG Rating applies across the entire investment process.**

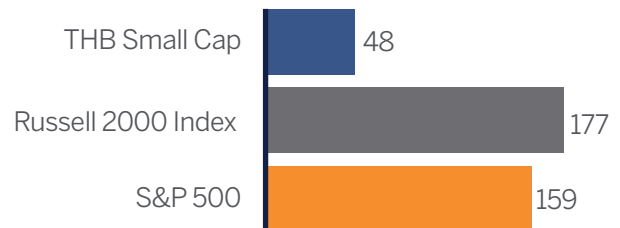


▶ THB has established an internal financial materiality map that takes into consideration how material various ESG factors are in the context of a company's specific industry and weights each factor accordingly. These weighted factors are then used to assign the company with an overall ESG rating based on a rules-based formula.

**70%** Carbon Intensity  
Lower than the  
Benchmark

The strategy undertakes to maintain the portfolio's level of overall Carbon Risk (measured as a function of carbon emission intensity) below the level of the Russell 2000® Small Cap Index.

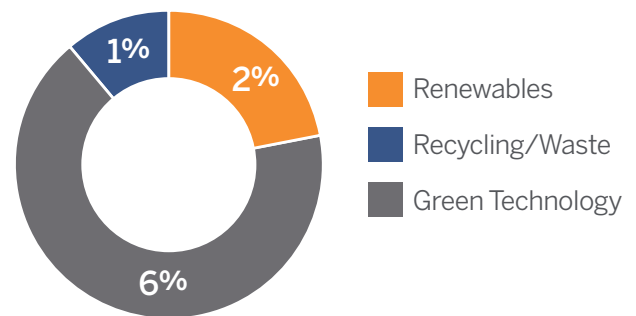
**Estimated Weighted Average Carbon Intensity\***  
(tons CO2/\$M sales)



**9%** Positive  
Environmental  
Impact

Our fundamental analysis takes into consideration climate-risk issues such as carbon emissions, green technology, energy efficiency, pollution and waste reduction activities, which are incorporated in our ESG rating methodology. We track portfolio exposure to positive environmental themes such as green technologies, renewable energy and pollution reduction.

**Weighted Average Revenue %**



\*Source: THB derives and analyzes the data shown using multiple third-party sources, including those calculated on MSCI Analytics, S&P Trucost Environmental Data (S&P Trucost Limited ©Trucost2022), Carbon Disclosure Project (CDP), and THB's own analysis. Updated annually. Estimates for exposure to controversial businesses and positive environmental impact as of 12/31/2022.

## GOVERNANCE

**100%** Of Total Portfolio Holdings Have At Least One Woman On The Board Of Directors

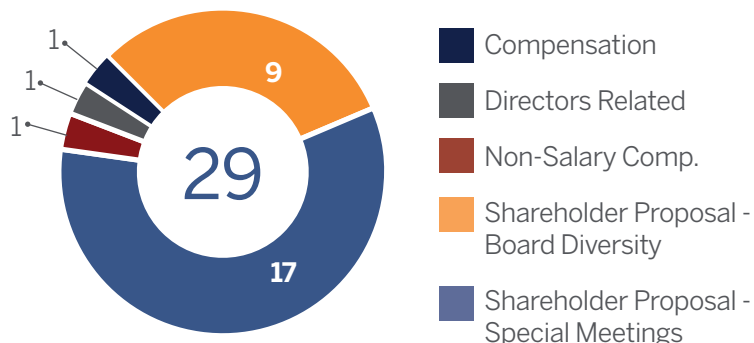
**82%** Independent Directors Per Holding On Average



## PROXY VOTING & ENGAGEMENT

THB believes that a well constituted board of directors, with a good balance of skills, expertise and independence, provides the foundations for a well governed company. THB votes for the election/re-election of directors on a case-by-case basis after considering various factors including general market practice, board composition and diversity, and availability of informa-

tion on director skills and expertise. In principle, THB believes that independent directors are crucial to good corporate governance and help management establish sound corporate governance policies and practices. A sufficiently independent board will most effectively monitor management and perform oversight functions necessary to protect shareholder interest.



Source: ISS Governance. The votes above are representative voting instructions for an account invested in the THB Small Cap Strategy.

Active engagement with corporate management teams is an integral part of THB's decision-making process. As investors in smaller companies, we understand and appreciate some of the nuances and challenges faced when viewing these companies through an ESG lens. THB takes a case by case, holistic approach to company engagement. We work with and sometimes educate management teams on the importance of ESG disclosures and ESG alignment, process and both positive and negative implications it may have on their stock price. THB believes that more robust ESG disclosures can improve shareholder value and possibly increase access to capital. We also inform companies that if they do not embrace better reporting standards, there could be a negative selection bias against their stock merely from a lack of data.

### > SEMICONDUCTOR COMPANY

#### > ISSUE: GOVERNANCE

THB withheld voting for three incumbent director nominees for failing to remove, or subject to a sunset requirement, the classified board and the supermajority vote requirement to enact certain changes to the governing documents, each of which adversely impacts shareholder rights.

Additionally, we withheld voting for a compensation committee member given that there were concerns related to severance arrangements.

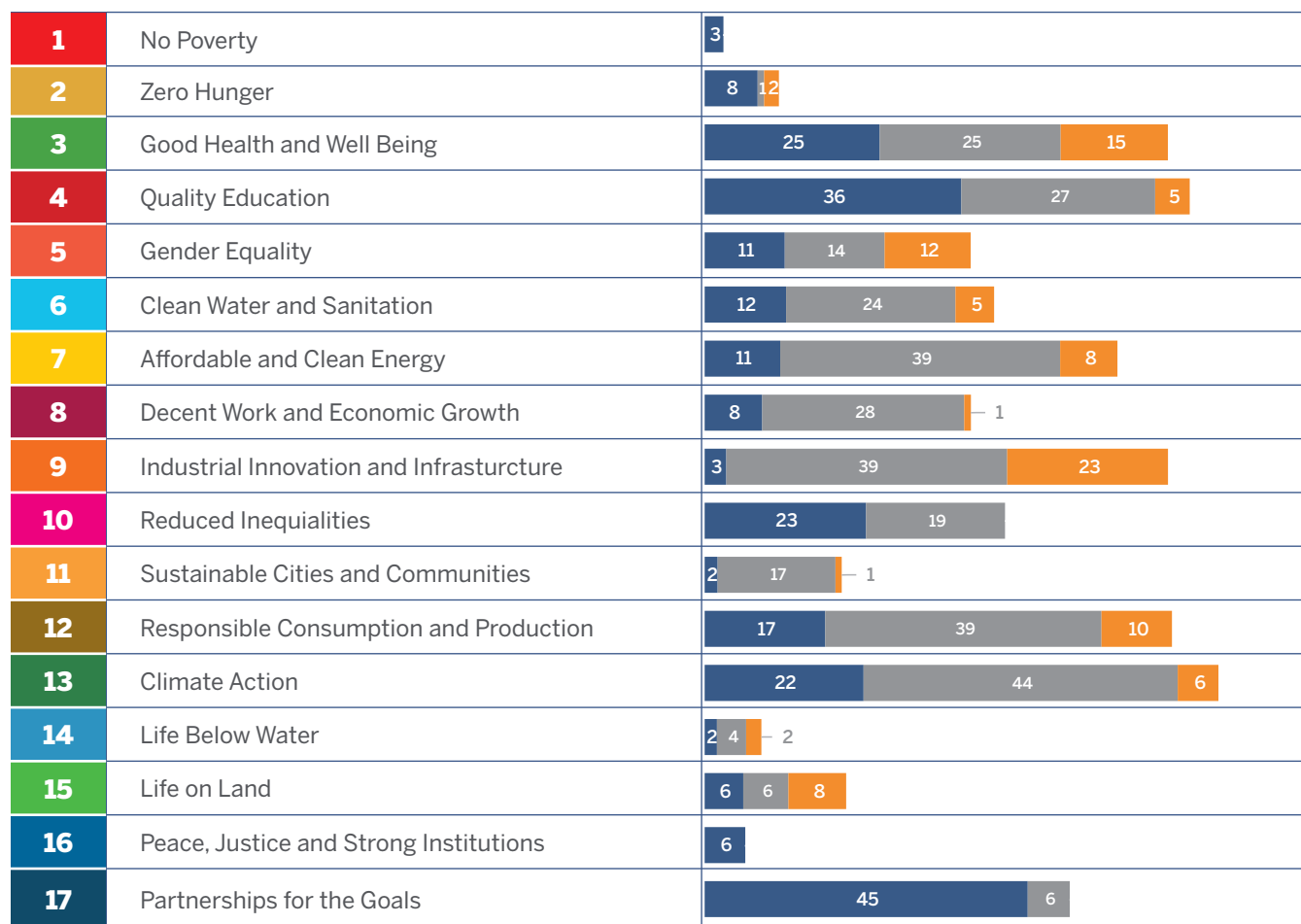
# Portfolio Impact Alignment

THB's rigorous fundamental process and ESG focus seeks to identify companies which increase shareholder value while not expensing their business activities through negative socio-economics externalities. The 17 Sustainable Development Goals (SDGs) set by the UN in 2015 aim to promote economic development, social inclusion and ecological sustainability.

Through our ESG ratings and engagement, our investment team strives to keep companies accountable

on issues that are closely aligned with the SDGs. Our research and analysis of issues such as waste management, resource efficiency, ecological impact, supply chain labor and material sourcing, labor relations and green technology investments, to list a few, reveal to a large extent how corporate strategies are aligned with SDGs. THB evaluates company SDG alignment in terms of both revenues and operations on a scale of low, medium and high in order to differentiate the level of exposure.

## THB SMALL CAP SUSTAINABLE DEVELOPMENT GOALS (SDG) EXPOSURE



Source: THB analysis, Company reports

Low Impact Medium Impact High Impact

## Diversity of thought. Collaborative culture. Continuity of philosophy.

THB believes that diversity of thought leads to better decision making. They foster and support this environment in multiple ways, such as the hiring process, employee management, promotions and continuing education. The team believes that gender, age, international experience and racial diversity contribute to its ability to deliver alpha. Of its eight-person investment team, five have minority backgrounds, six were born and raised outside of the U.S., and four are female.



**Christopher N. Cuesta, CFA**  
Chief  
Investment  
Officer



**Manish Maheshwari, CFA**  
Portfolio  
Manager



**Victoria Konstantinova, CFA**  
Assistant  
Portfolio Manager



**Brandon Viray**  
Sr. Research  
Analyst



**Allison Costas**  
Research  
Analyst/  
ESG Officer



**Meenal Somani, CA**  
Research Analyst



**Carlos Alfonzo**  
Research  
Analyst



**Surabhi Gupta**  
Research  
Analyst

### Performance Average Annual Returns (%) as of December 31, 2022

THB Small Cap Core Composite	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception (January 1992)
Gross of Fees	12.81	-15.00	-15.00	11.49	8.13	11.33	10.91
Net of Fees	12.56	-15.81	-15.81	10.42	7.08	10.25	9.83
Russell 2000® Index	6.23	-20.44	-20.44	3.10	4.13	9.01	8.92

**Past performance cannot guarantee future results.** Performance returns for periods of less than one year are not annualized. Returns include reinvestment of dividends and capital gains. Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

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**All investments carry a certain degree of risk including the possible loss of principal**, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Portfolios that are concentrated in a specific sector or industry may be subject to a higher degree of market risk than a portfolio whose investments are more diversified.

The Small Cap Core SMA may underperform during periods when higher risk companies lead the market.

Certain Victory Capital franchises integrate sustainable investing, responsible investing, or ESG analysis (collectively referred to as "sustainable investing") into their investment process. Such considerations can include, for example, environmental implications, such as a company's commitment to reducing carbon emissions, adoption of corporate cultural policies that promote employee inclusion and diversity, fair labor practices, measures to protect privacy and data security, and responsible supply chain management. Franchises evaluate these non-financial factors alongside more traditional financial, macroeconomic, and other qualitative indicators in an effort to enhance performance, manage investment risks, and identify emerging investment risks or investment opportunities.

In arriving at an investment decision, a franchise can take into account a variety of information from industry sources, independent research, company disclosures, and/or discussions with a company's management regarding the company's commitment and position, relative to other companies being evaluated, about sustainable investing issues and apply its experienced, qualitative judgment to this information and other available fundamental factors to arrive at a portfolio's final positions. Third-party ESG ratings can also be considered as a consideration in a franchise's investment process; however, such ratings are only one factor considered as it relates to a company's sustainability initiatives and no rating is definitive in making

an investment decision. Furthermore, a franchise may disagree with the analysis provided by third party research. The specific sustainable investing factors considered, the types of information used, and the integration of those factors and information into the investment process are determined by each franchise.

<sup>1</sup>The United Nations-supported Principles of Responsible Investing (UNPRI or PRI) is the world's leading proponent of responsible investment. It works to understand the investment implications of Environmental, Social, and Governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate, and ultimately of the environment and society as a whole. Visit the PRI website for more details: [www.unpri.org](http://www.unpri.org).

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