PERSPECTIVES – FROM THE MONTH IN REVIEW

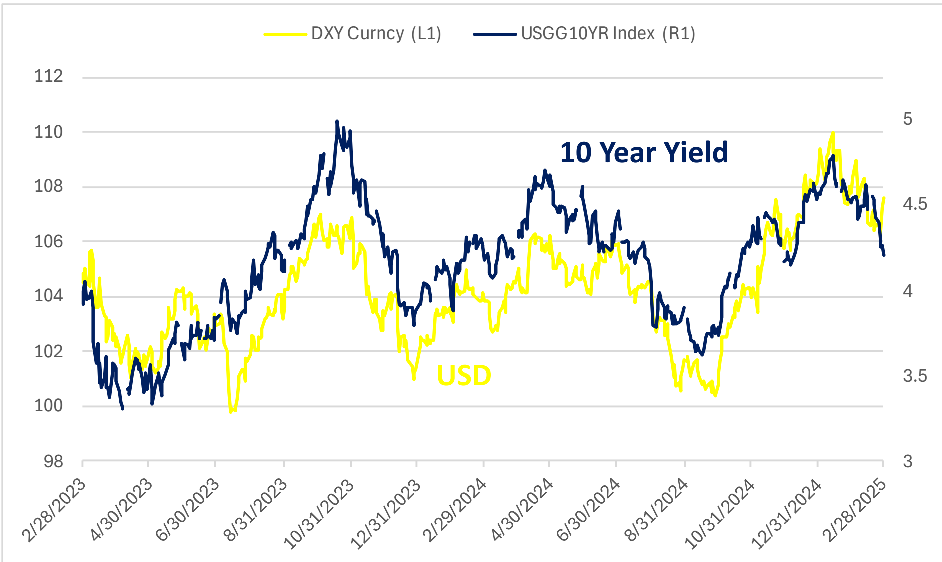
FEBRUARY 2025 EDITION

A VICTORY CAPITAL℠ INVESTMENT FRANCHISE

As of February 28, 2025

CHART OF THE MONTH – A Perfect Storm

At the close of February, the big story YTD has been US yields coming down and the USD following suit. Why? Economic data has been trending stronger in Europe and Japan than expected, while weaker in the US. Additionally, concerns around the AI narrative have weighed materially on US Tech stocks. The top 20 tech-focused companies account for about 35.8% of the S&P 500 and represent an outsized impact on the US market overall. The inverse correlation between USD weakness and ex-US market strength has subsequently yielded rallies across those markets to start the year



Source: Bloomberg, USGG10YR Index, DXY Curncy, Sophus Capital 2025.

QUOTE OF THE MONTH – Revelations & Common Sense

"What I have just described is only a fraction of the common sense revolution that is now, because of us, sweeping the entire world. Common sense has become a common theme."

– Donald Trump, Address to Congress, March 4, 2025

IN SUMMARY – New World Order?

USD – WEAK AT LAST, BUT FOR HOW LONG?

- As illustrated in the *Chart of the Month*, the Dollar extended it's YTD decline in February (-0.7%), bringing the YTD total depreciation to -0.8%. This has been a sharp and consistent downward trend to start the year. *What has been weighing on the USD?*
- Since returning to the Oval Office, the Trump administration has employed unorthodox tactics to achieve its goals:
  - **Austerity** (Elon Musk's DOGE task force) → cut government expenses (jobs) in order to reduce the federal debt and create space for Trump to renew the 2017 tax cuts (~$4tn worth). For context, the federal deficit sits at over $36tn and interest payments as a percentage of GDP have climbed rapidly post-Covid, reaching ~2.4% in 2024, with expectations for this to only increase further to 3.9% over the next decade.
  - **Inflation** (Tariffs + Immigration) → the double-edged sword of higher goods prices (tariffs) and lower access to cheap-labor in an already tight US labor market environment (curbed inflation, elevated deportation efforts) yield inflationary results. Not surprisingly, both headline and core US inflation accelerated in January to 0.45%, the quickest monthly rise since April 2023.

20250311-4307233

- **Ukraine Negotiations** (rebalance of strategic partnerships) – February revealed a shocking end to the Trump administration's already limited willingness to continue funding the war in Ukraine, in order to focus on its primary adversary China. A perception of optimism around China's emerging AI capabilities following the DeepSeek revelations fueled urgency to the long awaited policy shift. The point is clear – to challenge China in Asia, the US cannot afford to continue guaranteeing security to Europe.

– This heady combination creates a crisis of confidence around the world, but specifically the erosion of the world's confidence in the US, which trickled through into a weakening of the currency and yields. It is worth noting, *coincidentally*, that both of those conditions are essential components to Trump (and his Treasury Secretary Scott Bessent) positioning for their objectives ahead.

– It also bears repeating that the USD remains the world's reserve currency, that the US remains the largest economy, with the largest military power…while elevated uncertainty may be unavoidable, even when its *engineered*, these facts are just as irrevocable and theoretically place a firm floor under both USD and yields.

TARIFF TRACKER:

– So far, the Trump Administration's preferred tactic has been to threaten tariffs, then delay their implementation. This style of negotiation suggests any effects on global trade will likely be slower to materialize, but longer-term, countries (and investors) look to balance trade with the USA. The question then becomes whether the US has clearly defined end goals or if the goal posts can keep moving.

– At the end of February, the 25% tariff on Mexican and Canadian imports (excl. Canadian energy products like oil and electricity, which will only face 10%) still stood ready for implementation on March 4. China's additional 10% duty (on top of the previous 10% imposed on February 4), also remained at the ready to go into effect on March 4.

– Further out, Trump has guided for…

  - A 25% tariff on all steel and aluminum imports scheduled for March 12
  - A reciprocal tariff plan to address all countries taking advantage of the US on April 2 (e.g., the EU and its Value Added Tax, VAT as well as tariffs targeting agricultural imports)

– Ultimately, tariffs are an indirect form of taxation on the domestic consumer, which has business executives, consumers, and markets in the US bracing for impact. If a deal to prevent them isn't reached, more than $1 trillion worth of imports would see higher tariffs. The Conference Board's Consumer Confidence Index dropped nearly 7% in February alone, the lowest reading since June 2024 and the biggest monthly decline since 2011 as Americans stress levels rise in response to inflation, tariffs, and the labor market.

UKRAINE:

– The month began with a "lengthy and highly productive phone call" between Russian President Vladimir Putin and US President Donald Trump, with the latter announcing the two countries had agreed to begin negotiations to end Russia's war in Ukraine.

– Senior officials from both the US and Russia (US Secretary of State Marco Rubio and Russian Foreign Minister Sergey Lavrov) met in Saudi Arabia for the first high-level talks in years to discuss the war in Ukraine. Notably absent were any Ukrainian officials.

– In addition to negotiations regarding Ukraine, officials also reportedly discussed the potential to rekindle business ties between the two countries, which were severed following Russia's invasion of Ukraine in 2022.

– Ukrainian President Volodymyr Zelensky made several trips to Washington in February.

  1) **The First:** US Treasury Secretary Scott Bessent presented him with a proposed deal for the Ukraine to give the US ~50% of the ownership rights to its deposits of precious minerals (key ingredients in the manufacturing of high-tech products), as payment for financial support following Russia's invasion in 2022.
  2) **The Second:** While Zelensky called publicly for better terms regarding any potential rare minerals deal with the US, namely an agreement "that 10 generations of Ukrainians will not have to pay back," one including security guarantees, he returned to Washington on the final day of the month, reportedly with the intention of signing. However, Zelensky's meeting with Trump and JD Vance in the Oval Office turned chaotic when things went off script over security guarantees for Ukraine, resulting in a televised shouting match and Zelensky's swift departure once again.

– **Peace negotiations ended February at a standstill.** For all of this bluster and might, the Trump administration has seemingly come to the conclusion that the US military can no longer afford to be the world's peacekeeper. It cannot build up a presence in Asia (a strategic focus identified first by George W. Bush, and extended further by Obama), to contain China's influence, and guarantee support for Ukraine against Russia. It would appear that they have evaluated both threats, and prioritized China over Russia for now.

***MONTH/YTD THROUGH 2/28/25*: MSCI EM Index +0.5%/+2.3%, MSCI Emerging Markets Small Cap Index -2.6%/-5.4%, and MSCI China Index +11.8%/+12.8%.**

REGION

Emerging Europe, Middle East, and Africa (per the MSCI EEMEA Index), was the best performing region last month, up 0.7%, with Poland (+8.21%), Greece (+4.1%), Czech Republic (+2.2%), and Hungary (+1.4%) rallying on expectations of a peace deal for neighboring Ukraine brokered by the Trump administration, which has since faded. Poland continued to advance as the country remains well positioned in the current economic landscape, sustained by strong/stable domestic growth dynamics. Latin America was the worst performing region in the period (MSCI LATAM Index -1.8%), with Brazil (MSCI Brazil Index -4.8%) weighing the most. In Brazil, high frequency economic activity data released last week showed signs of a slowdown in November and December, a welcome sight for the over-heating economy that largely forced the central bank into shock-therapy on the monetary side in an effort to contain inflation, with two 100bps interest rate hikes in each of its last two meetings. Fiscal uncertainty remains a chief concern for investors in Brazil, where President Lula’s approval rating continues to decline, reaching his lowest popularity rate of 24% in three terms.

SECTOR

Consumer Discretionary (MSCI EM Consumer Discretionary +9.3%) was the best performing sector in January, driven by Chinese players buoyed by President Xi’s supportive stance for the private sector in a meeting with business leaders (including founders of Alibaba and DeepSeek), and the nation’s growing capabilities in artificial intelligence bolstering investor optimism over the market’s outlook. Energy (MSCI EM Energy -5.3%) was the worst performing sector, driven by broad-based pressure on the commodity following 1) newsflow around negotiations ramping up for an end to the war in Ukraine (which would unlock additional capacity back into the market) and 2) announcements that OPEC+ would indeed ramp up its own capacity starting in April. Indian players bore the brunt of profit-taking in conjunction with broader-based market weakness in February.

CURRENCIES/COMMODITIES

The US Dollar ended the month down 0.7%. The best faring EM currency versus the USD in February was the Russian Ruble (RUB), up 10.3% on the month. Conversely, the worst performer was the Turkish Lira (TRY) down 2.0%. Brent oil closed the month down 4.7%. Investors continue to focus on geopolitical developments, particularly in the aftermath of an Oval Office argument between the US and Ukrainian presidents, while also bracing for Washington’s new tariffs and Iraq’s decision to resume oil exports from the Kurdistan region.

STYLE

The MSCI EM Small Cap Index ended the month down 2.6%, underperforming MSCI EM Large Cap Index, which advanced 0.6%. Year-to-date, Large Caps have outperformed Small Caps by 782 basis points. The MSCI EM Value Index rose 1.2% for the month, outperforming MSCI EM Growth Index, which decreased 0.2%. Year-to-date, Value has outperformed Growth by 80 basis points.

20250311-4307233

WHY INVEST WITH SOPHUS CAPITAL?

Experienced team with long track record – the team, investment process, and philosophy date back to 2001, when Michael Reynal took over the EM strategy. Of the 9 members who currently make up the investment team, six trace their origins back to the Victory Sophus Emerging Markets Fund's 2013 inception (with an average of 12 years on the team).

Invest across all market capitalizations – seek to exploit the inefficiencies in EM of bias, information, and access. Integrated approach allows us to capture growing companies down the cap spectrum, where inefficiencies are at their greatest, and alpha potential most significant.

Disciplined process – our process is bottom-up, with stock selection our biggest source of alpha, as the team believes that stock-picking is the most consistent alpha source in the emerging market space. Analysts combine quantitative signals with in-depth fundamental research to formulate high conviction alpha ideas. Portfolios are rigorously managed to emphasize stock selection as the key alpha driver, while controlling country, sector, factor, and other risks continuously.

Consistent results – our strategy was designed to provide a consistent return pattern over time. Our intention isn't to crush it in any one year, instead the discipline and consistency inherent to our process seeks to protect us from large swings in both directions.

Preliminary Investment Performance (%)

Average Annual Returns as of February 28, 2025

Sophus Emerging Markets Strategy	**QTD**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**10 - Year**	**Since Inception (3/31/13)**
Gross of Fees	2.80	2.80	6.92	0.36	3.95	4.46	3.94
Net of Fees	2.66	2.66	6.07	-0.44	3.12	3.61	3.08
MSCI Emerging Markets Index (Net)	2.28	2.28	10.07	0.46	4.26	3.49	2.96
Differential (Gross of fees vs. Index) bps	+52	+52	-315	-10	-31	+97	+98
Sophus Emerging Markets Small Cap Strategy	**QTD**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**10 - Year**	**Since Inception (1/31/14)**
Gross of Fees	-2.93	-2.93	0.04	4.69	9.41	6.83	6.78
Net of Fees	-3.09	-3.09	-0.96	3.65	8.32	5.69	5.63
MSCI Emerging Markets Small Cap Index (Net)	-5.36	-5.36	-1.78	2.63	9.84	4.76	4.99
Differential (Gross of fees vs. Index) bps	+243	+243	+182	+206	-43	+207	+179

Source: SEI

Past performance does not guarantee future results. Performance is preliminary and subject to change.

Returns greater than one year are annualized. Returns are expressed in U.S. Dollars. Returns reflect the reinvestment of dividends and other earnings.

Investment Performance (%)

Average Annual Returns as of December 31, 2024

Sophus Emerging Markets Strategy	**4Q24**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**7 - Year**	**10 - Year**	**Since Inception (3/31/13)**
Gross of Fees	-6.43	6.41	6.41	-1.78	1.43	1.27	4.56	3.75
Net of Fees	-6.56	5.63	5.63	-2.56	0.62	0.47	3.71	2.89
MSCI Emerging Markets Index (Net)	-8.01	7.50	7.50	-1.92	1.70	1.38	3.64	2.80
Differential (Gross of fees vs. Index) bps	+158	-109	-109	+14	-27	-11	+92	+95
Sophus Emerging Markets Small Cap Strategy	**4Q24**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**7 - Year**	**10 - Year**	**Since Inception (1/31/14)**
Gross of Fees	-5.55	3.32	3.32	3.80	7.63	5.20	7.34	7.18
Net of Fees	-5.70	2.38	2.38	2.80	6.56	4.16	6.20	6.02
MSCI Emerging Markets Small Cap Index (Net)	-7.19	4.79	4.79	2.10	8.56	4.58	5.73	5.60
Differential (Gross of fees vs. Index) bps	+164	-147	-147	+170	-93	+62	+161	+158

Source: Victory

Past performance does not guarantee future results.

Returns greater than one year are annualized. Returns are expressed in U.S. Dollars. Returns reflect the reinvestment of dividends and other earnings.

Past performance is no guarantee of future results. Composite and benchmark returns are net of transaction costs and gross of non-reclaimable withholding taxes.

Composite and benchmark returns are presented net of non-reclaimable withholding taxes. 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). Net returns prior to 1/1/2017 were calculated using actual fees. 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.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index.

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.

The Sophus Emerging Markets representative account serves as the model against which each Sophus Emerging Markets strategy account is managed. The representative account is an actual portfolio and the information provided, including performance, will vary for other accounts. The representative account is being used solely as a tool to help demonstrate how performance can be attributed to the investment policies applied in the management of the Sophus Emerging Markets strategy.

The Sophus Emerging Markets Small Cap representative account serves as the model against which each Sophus Emerging Markets Small Cap strategy account is managed. The representative account is an actual portfolio and the information provided, including performance, will vary for other accounts. The representative account is being used solely as a tool to help demonstrate how performance can be attributed to the investment policies applied in the management of the Sophus Emerging Markets Small Cap strategy.

Chart of the month sourced via Bloomberg data.

This information is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice. The securities highlighted, if any, were not intended as individual investment advice. A complete list of all holdings for the previous 12 months, each holding's contribution to the strategy's performance, and the calculation methodology used to determine the holdings' contribution to performance is available on request. Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, which may be contrary to any opinion or projection expressed in this report.

The Sophus Emerging Markets Composite includes all discretionary accounts invested in the Emerging Markets Strategy. The Strategy employs an integrated investment approach whereby powerful proprietary quantitative screens are melded with deep fundamental analysis to capture the growth of emerging markets companies across the market-cap spectrum. The composite creation month is April 2013.

The Sophus Emerging Markets Small Cap Composite includes all discretionary accounts invested in the Emerging Markets Small Cap Strategy. The Strategy employs an integrated investment approach whereby powerful proprietary quantitative screens are melded with deep fundamental analysis to capture the growth of emerging markets companies across the market-cap spectrum. The composite creation month is February 2013.

The MSCI Emerging Markets Index is a free-float-adjusted, market-capitalization-weighted index designed to measure equity market performance in the global emerging markets.

The MSCI Emerging Markets Small Cap Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the performance of small-cap stocks in the emerging markets.

Victory Capital Management Inc. (VCM) is a diversified global investment adviser registered under the Investment Advisers Act of 1940 and comprises multiple investment franchises: Integrity Asset Management, Munder Capital Management, New Energy Capital Partners, NewBridge Asset Management, RS Investments, Sophus Capital, Sycamore Capital, THB Asset Management, Trivalent Investments, Victory Income Investors (formerly USAA Investments, a Victory Capital Investment Franchise), and the VictoryShares & Solutions Platform. Munder Capital Management and Integrity Asset Management became part of the VCM GIPS firm effective November 1, 2014; RS Investments and Sophus Capital effective January 1, 2017; Victory Income Investors, effective July 1, 2019; THB Asset Management, effective March 1, 2021, and New Energy Capital effective November 1, 2021. Effective September 1, 2023, INCORE Capital Management is no longer part of the VCM GIPS firm.

Request a GIPS® Report from your Institutional Relationship Manager or visit www.vcm.com.Victory Capital claims compliance with the Global Investment Performance Standards (GIPS®).

20250311-4307233