RS MID CAP VALUE STRATEGY QUARTERLY COMMENTARY

RS Investments®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of June 30, 2024

Market Commentary

The start of the second quarter had us all wondering if the equity market rally was finally losing steam, but those worries abated—at least in terms of the headline number—as we moved deeper into the quarter. Indeed, a popular proxy for the overall domestic stock market, the S&P 500® Index, clocked in with returns of more than 4% for the quarter. At the surface that looks impressive, yet the bulk of these gains were once again fueled by just a handful of mega-cap stocks that are technology companies where investors continued to be infatuated with artificial intelligence.

So, while the Technology and Communication Services sectors headed higher, many investors continued wondering if the relatively narrow market rally would broaden out. There are a few reasons why the underlying internals in the stock market were mixed during the second quarter. For starters, the narrative around Federal Reserve monetary policy has been evolving. Early in the year, the market was pricing in up to six rate cuts for 2024. Yet hotter-than-expected inflation readings changed that narrative—particularly early in the second quarter—and hopes for aggressive rate-cutting diminished. More recently, however, inflation readings have cooled, and the Federal Reserve has suggested it is getting more comfortable with the current trajectory of prices. This has rekindled optimism for rate cuts as early as the September Federal Open Market Committee meeting.

There has also been debate about the strength of the economy and the degree to which it might be cooling. Although there have been signs of slowing, job growth has remained surprisingly strong, and the "soft landing" narrative remains popular. Yet nothing is certain, and this shifting narrative may be keeping the equity market rally relatively narrow.

Moreover, we should not discount the potential influence of the upcoming U.S. presidential election. A change in administration could have a material impact on economic policies, the regulatory environment, possible new tariffs, and even significant changes in financial regulatory leadership. It's not only impossible to predict the outcome of the election, but the ultimate impact on markets remains unclear as well. This added layer of uncertainty could challenge equities in the second half of the year.

Given the uncertainties and the relatively narrow technology-driven rally, domestic value-oriented companies—our area of focus—did not fare as well as growth-oriented counterparts. The Russell 3000® Value Index declined by approximately 2.3% during the second quarter. In terms of market capitalizations, small-cap value stocks, as represented by the Russell 2000® Value Index, declined 3.6% for the quarter. The Russell Midcap® Value Index declined 3.4%, while large-cap stocks, as represented by the Russell 1000® Value Index, declined 2.2% during the same period.

The current market environment has largely favored Technology and Communication Services sectors to the exclusion of many other attractive companies in other segments of the economy. Although this reality has been challenging for value investors, it may also be creating attractive opportunities for those with a longer-term investment horizon. As a result, we believe actively managed, value-oriented approaches should be well positioned going forward. Companies with sound balance sheets and solid fundamentals should once again be viewed favorably in this environment. 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 deep discount to intrinsic value. We believe that allocating to these types of businesses is a means to generate attractive risk-adjusted returns over longer time periods, and this continues to be a primary focus for us as we look toward the remainder of 2024 and beyond.

Performance Review

For the three months ended June 30, 2024, the RS Mid Cap Value strategy outperformed its benchmark Russell Midcap® Value Index (the "Index") and returned -3.11% net versus a return of -3.40% for the Index.

In the second quarter, strong performance from stock selection in Industrials and Financials aided relative performance, while stock selection in Materials and Communication Services 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 its 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.

Teva Pharmaceutical (TEVA), a global manufacturer of generic and branded drugs, outperformed its peers and the broader market in the second quarter due to positive clinical data, successful product launches, and stabilizing generic pricing. Promising first-quarter sales from newer products like Ajovy for migraine and Austedo for tardive dyskinesia and Huntington's continue to highlight its innovative capabilities. TEVA also provided positive phase 3 data on Olanzapine for schizophrenia and received approval for biosimilar versions of Humira and Stelara. These developments, along with a stabilizing generic market, have improved TEVA's financial performance in recent years, allowing it to reduce net leverage to ~3x, with further reductions planned. Despite this progress, many investors undervalue TEVA at a ~7x Enterprise value (EV)/EBITDA, treating it like a commodity-generic company despite its transformation. We continue to hold the security.

Globe Life Inc. (GL) is an underwriter and distributor of life, accident, and supplemental insurance to middle income families and individuals. The long duration nature of life insurance products provides a very consistent and long duration cash flow stream for the company. With an aging population in the United States, the company is benefiting from growing demand for life insurance products as well as the need for Medicare supplemental plans, which provide additional coverage beyond what Medicare provides. In addition to the secular drivers, the company is benefiting from a normalization in margins after elevated trends during the COVID pandemic. GL also benefits from higher interest rates, as its investment portfolio is now able to reinvest at higher yields, improving the returns on the business. This past quarter, shares underperformed after some investor concerns arose regarding sales practices with a limited number of agents in the company's independent distribution channel. Despite the recent underperformance in the shares, there has been no change to our thesis and we continue to hold the security.

Outlook

The rate of inflation has subsided, and the consensus appears to be that we have reached the end of the rate hiking cycle. Debate is now focused around when the Fed may start easing. However, declaring a victory over inflation too soon is not without risks. The U.S. and the rest of the world continue to manage the impacts of excessively elevated prices and higher interest rates while contending with geopolitical upheaval. The potential for a policy error remains high, particularly as we transition from a pandemic to a normalized economy. At this juncture, we continue to lean toward a slowdown in economic activity through the remainder of 2024.

U.S. employment remains strong, and we believe the pieces are in place for that to continue. Heavy fiscal stimulus from passed U.S. legislation for defense, infrastructure, semiconductors, and energy investments is only now beginning to be awarded. The spending should not peak until later in the decade. We believe relatively high energy costs in Europe, and Germany in particular, make manufacturing here relatively more attractive. In our view, political risk in China makes that country less attractive to do business in. We expect housing to continue to be challenged by high mortgage rates and affordability concerns, although a shortage of housing after more than a decade of underinvestment should help home prices. Consumer balance sheets remain generally healthy for the majority of Americans, and consumer credit quality remains strong at the moment.

Following years of low interest rates helping to drive ever-higher growth stock valuations, we feel value investing is ripe for a period of outperformance. We continue to find opportunities to invest in quality businesses with solid balance sheets and cash flows, where the return on invested capital (ROIC) is improving, and whose share prices have detached from our assessment of the fundamentals.

We thank you, as always, for your support.

Sincerely,

RS Value Team

Top Contributors (Representative Account)
As of June 30, 2024

Holding	% Contribution to Return
TKO Group Holdings, Inc. Class A	0.50
Vistra Corp.	0.39
Keurig Dr Pepper Inc.	0.23
Leidos Holdings, Inc.	0.23
Teva Pharmaceutical Industries Ltd.	0.22

Top Detractors (Representative Account)
As of June 30, 2024

Holding	% Contribution to Return
Globe Life Inc.	-0.59
LKQ Corporation	-0.52
AGCO Corporation	-0.35
PVH Corp.	-0.35
Nomad Foods Ltd.	-0.33

Composite Performance
Average Annual Returns as of June 30, 2024

RS Mid Cap Value Composite	Second Quarter 2024	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception*
Gross of fees	-2.97%	6.63%	11.43%	7.13%	9.47%	8.68%	9.50%
Net of fees	-3.11%	6.31%	10.77%	6.49%	8.82%	7.93%	8.01%
Russell Midcap® Value Index	-3.40%	4.54%	11.98%	3.65%	8.49%	7.60%	10.45%

Past performance does not guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. 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 reflect gross performance less investment management fees. 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. *06/30/1993.

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.

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.

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.

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The Russell Midcap® Value Index is a market-capitalization-weighted index that measures the performance of Russell Midcap® Index companies with relatively lower price-to-book ratios and lower forecasted growth.

The RS Mid Cap Value Strategy primarily invests in a diversified portfolio of mid-cap companies.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines, and other factors. The representative account is believed to most closely reflect the current portfolio management style.

Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser, 15935 La Cantera Parkway, San Antonio, TX 78256.

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